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SUBJECT: SCENESETTER FOR VISIT OF ASSISTANT SECRETARY GORDON

Classified By: Ambassador John Beyrle; reasons 1.4 (b) and (d)

¶1. (C) Phil, we're all looking forward to seeing you out here next week. U.S.-Russian relations continue to feel the momentum from the July summit; your visit will be important in sharpening the focus of the Bilateral Presidential Commission and identifying areas where we can collaborate on a broad range international issues. GOR officials will also look to you in setting the agenda and deliverables for Secretary Clinton's visit to Moscow in October. The strain on the Russian economy may be easing slightly, as analysts are predicting small but positive economic growth for 2010, although the lack of structural reform may prevent a strong upswing. While Putin remains the "first among decision-makers," Medvedev enjoys strong public support, but his backing from key elite groups will be tested this fall based on, among other matters, whether he makes progress on domestic political reform and fighting corruption. Medvedev is focused on continuing the momentum of the July summit, looking forward to engagement with President Obama in New York and Pittsburgh.

U.S.-Russian Relations

¶2. (C) The President's July visit to Moscow has put real wind in our sails, to a degree I haven't felt in over a decade. Your visit and that of Secretary Clinton in October will help us capitalize on this. Work is progressing well on START follow-up, and the first transit flights of lethal material to Afghanistan are due to commence soon. Lavrov told MGIMO students September 1 that "results of the U.S.-Russia summit in Moscow suggest only one thing: everything is possible when our interests coincide, and where there is agreement on the principles and legal basis for cooperation. The challenge is to translate this into specific decisions and joint actions." In his six years as foreign minister, Lavrov has not been prone to over-optimism in our bilateral relations; his changed assessment means there is clear support from both Medvedev and Putin for constructive engagement, an assessment I've heard directly from Prikhodko and Ushakov as well. It will help us build a good foundation for the Bilateral Presidential Commission, and provides some basis for hope on progress in the still neuralgic points on the agenda, like missile defense and our relationships with CIS states.

¶3. (C) Key to giving us regular, focused contact with important parts of the GOR bureaucracy will be an efficient, results-oriented Bilateral Presidential Commission (BPC). We have shared with the GOR our ideas for the work each of the 14 working groups will undertake, and expect that they will begin meeting in the weeks ahead. Critical issues such as cooperation on Afghanistan and Iran will be among the first the BPC's working groups grapple with, giving us an early sense of their effectiveness in moving us forward. Practical work on matters such as health and environment concerns, as

well as promoting society-to-society education and NGO contact and cooperation, offers an opportunity for building the broader relationship the President envisions. Your interlocutors will be keen to offer their views on how best to use the structure established to accomplish mutual goals.

Domestic Political Context

¶4. (C) After almost a year and a half of tandem leadership of Russia, Medvedev and Putin continue to function based on a division of labor. The President plays to his strengths of clear public presentation and a long-range focus on a modern economy, and underscores his constitutional responsibilities for foreign policy. Prime Minister Putin, meanwhile, has built on his image of a domestic problem solver, employing his trademark street-wise rhetoric in dressing down oligarchs or critics. Although there is some evidence that their closest advisors continue to spar over specific policies and personnel matters, the two leaders themselves share state-run national media coverage (to the exclusion of other political figures) and project an aura of ease with one another in public. The fact that Medvedev has yet to make major changes to the senior staff he inherited from Putin, Putin's occasional and indirect "corrections" to his pronouncements or actions, and the prominence of Putin in tackling crises - whether conflict with Georgia, gas supply negotiations with Ukraine, or localized unrest or frustration due to the economic crisis - earns Putin higher public opinion ratings and elite group allegiance than Medvedev. This, combined with his suggestions that he might stand for a third presidential term, has ensured that major decisions will not

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be made without Putin's approval.

¶5. (C) The complete national dominance of the ruling United Russia party under the leadership of Putin has made it difficult not only for true opposition parties (Yabloko) but also for Kremlin-sanctioned parties (Just Russia, Zhirinovskiy's Liberal Democrats, Right Cause, and even the Communists) to function, let alone capitalize on economic discontent. Regional elections in October are likely to reinforce United Russia's control throughout the country, including in Moscow under the city's long-serving populist, nationalistic mayor.

¶6. (C) Over coffee with human rights and political activists, and at lunch with a few of the best political observers in Moscow, you will hear similar descriptions of the political stage, but starkly different interpretations of the short and long-term implications for policy, participation and personnel in the Russian government, and how it will impact the course of U.S.-Russia relations. Both meetings will give you a chance to talk frankly to friends and skeptics about implementing the President's vision for a stronger relationship.

¶7. (C) The marked deterioration of security in the North Caucasus over the past three months has alarmed regional and national leaders. The initial optimism that Yevkurov (Medvedev's pick as Ingushetia's President) would be able to bring ethnic and religious groups together were destroyed by the car bomb that nearly took Yevkurov's life. Suicide bombings throughout the North Caucasus, including in Chechnya (despite the rule of Kremlin-favorite strongman Ramzan Kadyrov) have challenged the near-total control that these men exercise over their regions. Having invested considerable treasure and blood in "pacifying" the North Caucasus over the past decade, Moscow now must ensure that the violence does not spill over to adjacent regions, or embolden separatists elsewhere in Russia.

Developments in the Russian Economy

¶8. (SBU) A few months ago, bankers and economists were predicting a "second wave" of the economic crisis. That prediction is more arguable now. The GOR forecasts GDP to grow by 1.6 percent next year, but if oil prices keep rising, the economy might grow by 10 percent or more. However, industrial output is not expected to recover until 2012 from this year's drop of 12.4 percent. We expect any recovery to be on the back of the real sector; the financial sector will not be contributing due to the credit crunch and continued recapitalization. The looming threat in the banking sector is the growing number of non-performing loans. The threat is that they could cause banks to fail, that the government would not be able to bail them out, or that a run on banks would ensue. While Russia's debt position is not bad, looming deficits during the next few years will worsen it and threaten to crowd out private investors. You might sound out your GOR interlocutors about plans to borrow on the international financial markets; Putin recently slapped down speculation about any IMF borrowing.

¶9. (SBU) ENERGY: Russia's energy policy is closely tied to its foreign policy. With regard to gas pipelines, Russia seeks to diversify away from transit states, even if such plans are uneconomic. Russia will be locked into selling gas to the European market for the foreseeable future, and thus remains dependent on Ukraine, through which approximately 80% of Russian gas exports transit to Europe. The majority of Gazprom's vast revenues and profits come from sales to Europe. The plunge in European gas demand coupled with competition from LNG has struck a major blow to Gazprom's (and the government's) finances. In explaining our Eurasian energy policy to the GOR, we need to start to change their default analysis that this is a zero-sum U.S.-Russia competition.

WTO

¶10. (SBU) There is a struggle within the Russian elite regarding its approach to WTO accession, as protectionist instincts clash with desires for closer international integration. Since the August 12 Russia-Belarus-Kazakhstan Customs Union Summit, Russia has staked out a new WTO accession policy: one joint negotiating team headed by the Russian WTO negotiator will now handle accession of all three members. At this point Russia's tariff code and WTO Working Party Agreement is the model the group will follow in all

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areas of negotiation. The WTO Secretariat and Member States prefer three legally separate negotiations with harmonized agreements. Your meeting with Deputy PM Shuvalov should shed authoritative light on where Russia thinks it's headed; their early accession is strongly in our interests, but it's hard to see a clear way ahead right now.

Bilateral and Multilateral Political Issues

¶11. (C) START FOLLOW-ON: Russian officials continue to sound confident about completing a follow-on agreement by early December, but I fully share Rose Gottemoeller's concerns about the Russian interagency capacity to go at it full-bore, as is essential. This is a crucial problem for you to address in your meetings. During the October ministerial, the Secretary and Lavrov should make a joint statement reaffirming the sides' commitment to negotiations and leadership on disarmament. This meeting could also serve to announce progress on text or a reduction in the numbers of permitted delivery systems or warheads.

¶12. (C) MISSILE DEFENSE/JOINT THREAT ASSESSMENT (JTA): The July 29 JTA talks were disappointing, as DFM Antonov refused to engage until the U.S. assuaged Russia's concerns with the third missile defense site. Your interlocutors here will press you to reveal the administration's decision on the

missile defense program's future, particularly as regards Poland and the Czech Republic. Your advocacy for the JTA will help tee it up for a quick start after a Missile Defense announcement, as could insistence that the Secretary and Lavrov review progress on the assessment at the October ministerial.

¶13. (C) IRAN: GOR officials and analysts fundamentally disagree with us on the threat posed by Iran's missile and nuclear programs, seeing the threat as long-term and resolvable through engagement. The GOR also perceives the use of sanctions against Iran as a threat to its strategic position in the region and to its exporting industries. Russia's "freeze" on the delivery of the S-300 air defense system is welcome, but you should push Russia to make this decision permanent. As we seek Russian support for our efforts to change Iranian behavior, you can brainstorm a bit in some of your discussions on efforts (beyond the JTA) to alter Russia's underlying assessment of the Iranian threat. Without this agreement on principle, Russian behavior and policies are unlikely to change. Securing Russian agreement on joint development or deployment of missile defense system elements will send a strong signal to the Iranian leadership, and undercut GOR posturing in the region.

¶14. (C) AFGHANISTAN: You should thank GOR officials for concluding transit agreements, the first tangible assistance Russia has provided. The bilateral commission's working group on international issues and a revitalized NRC should discuss how else the GOR could contribute to Afghan stabilization. Medvedev has committed the GOR to aiding regional stabilization during trilateral summits with Presidents Karzai and Zadari. Russia is also looking ahead to visits by General Petraeus and S/E Holbrooke.

¶15. (C) MIDDLE EAST: Russia has been a useful peace process partner, playing a positive role in the Quartet, and reinforcing U.S. messages in the region. The MFA continues to advocate a follow-on to Annapolis, but has repeatedly delayed convening the "Moscow conference" due to a lack of regional support. We have differed in the past over the virtues of engagement with Hamas, Damascus, and Tehran, with Russia generally having little to show for its diplomatic efforts. Nevertheless, Russia's improved relations with Israel, with whom it now has a visa-free regime and a vigorous strategic dialogue, and the presence of a pro-Israel lobby at home (tied to the substantial Russian community in Israel), has moved Moscow beyond its reflexively pro-Arab stance of Soviet days.

¶16. (C) NEIGHBORHOOD: Greater integration of the CIS and influence over its neighborhood is Russia's number one foreign policy goal, but things are moving backward for Russia. CSTO members refused to sign up to Moscow's rapid reaction force proposal and ignored calls for GOR-sponsored summits, instead fostering closer military and political ties to the West. Moscow's response is to pour on more pressure: Medvedev's thunderous open letter to Ukraine, meddling in Moldova's recent elections, and stubborn intransigence on anything related to Georgia. Russia understands that NATO MAP for Georgia and Ukraine is unlikely in the near term, but will want to know how much it remains an American priority.

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GOR interlocutors might also raise with you Medvedev's proposed European Security Treaty (EST), which remains in "pause" mode after Corfu.

Climate/Health/Science Cooperation

¶17. (SBU) Many Europeans fear Russia will be a "spoiler" at the December Copenhagen climate change talks. Russia has been an active participant in the Major Economies Forum (MEF); the United States has not yet actively engaged Russia bilaterally. Although Russian environmental degradation

affects Alaskan health and wildlife, our countries no longer have environmental policy dialogues. We have considered creating a subcommittee under the Energy and Environment Working Group to advance non-energy-related environment issues, including the Arctic, pollution, climate change, illegal logging, and reduced biological diversity. Two projects are possible deliverables for the Secretary or the next summit: The Tiksi climate observatory, which should be operational this fall, and the Shared Beringia Heritage Park between Chukotka and Alaska, which the Russian government should be ready to create early next year. On health, we are encouraged by how actively the Russian government is preparing for the new Health Working Group, which will focus on infectious diseases, non-communicable diseases, healthy lifestyles, and maternal and child health. While U.S.-Russian science cooperation still falls short of its historic potential, the Science and Technology Working Group will provide a mechanism to resolve festering taxation and customs problems and increase engagements by young scientists.

¶18. (SBU) Whew. As you see, the relationship is active and growing. After my first six months here, when I felt like a fireman, I can see that we're now into a sustained, positive period of rebuilding. I look forward to working with you during your visit and after to keep it going.
Beyrle